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C O N F I D E N T I A L SECTION 01 OF 03 DOHA 000789

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TAGS: EFIN EINV ECON QA
SUBJECT: QATAR'S ECONOMIC FORECAST: PARTLY SUNNY

REF: DOHA 190

Classified By: Amb. Joseph LeBaron for Reasons 1.4 (b) and (d).

(C) KEY POINTS

-- Qatar is riding out the global financial storm relatively well, although the Embassy's finance contacts are not certain, given the lack of transparency across the financial sector.

-- However, personal debt has clearly ballooned. It will present a growing challenge to Qatar's social cohesion as over-extended citizens pressure their families and/or the government for help.

-- The extreme volatility in the small Doha Securities Market should not/not be read as a bellwether of Qatar's financial health.

-- In the bank sector, conflicts of interest and the lack of transparency could create a near-term challenge.

(C) COMMENTS

-- Even with the limited financial visibility we have, this seems clear enough: personal debt among Qatari citizens is rising, to the extent that it could become a significant socioeconomic issue having ultimately political consequences.

-- Qatar's tribal society, with its practice of basing credit for Qataris by name, not by income and net worth, is partly to blame for the rising personal debt.

-- As Qatar becomes part of a globalized economy, and as the global downturn continues, these lending policies almost certainly will have to change.

END KEY POINTS AND COMMENTS.

Slowdown Welcome but Personal Debt a Growing Problem

¶1. (C) Sheikha Hanadi Al Thani, Chairperson of the Qatari investment bank Amwal and Deputy CEO of Nasser Bin Khalid Holding, told P/E Chief and Econoff November 4 that the financial and economic situation in Qatar is "still smoky" but there is no question the country is being affected by the global financial crisis. She assessed, however, that the Gulf will be one of the most-shielded places in the world, and Qatar will be the most-shielded in the Gulf. Referring to her private business interests, she said that "luxury is the first to get hit during an economic downturn," but so far she is not/not seeing numbers from her Mercedes-Benz

dealership to suggest Qataris are changing their spending habits. Al Thani speculated that the need to keep up image and a belief that debtors will be bailed out is encouraging moral hazard.

¶2. (C) She echoed comments by other interlocutors that a slowdown in Qatar's rapid economic growth would be somewhat welcome - particularly in the real estate sector - to allow the government and businesses to focus on growing managerial capacity and improving the quality of current projects. In mid-October, Al Thani's company completed the first part of a major financing package (USD 1.3 billion out of a USD 3.2 billion project) for Al-Waab City, which will be one of the largest multi-use developments in Qatar when it opens in ¶2010. She noted that she expects some other companies' newer projects to be delayed or canceled, due to difficulties in finding financing and higher financing costs.

¶3. (C) Al Thani continued that local Qatari reactions to the global turmoil range from those who are confused or ignorant about what it all means to those who are panicking as they see their investments decline in value. She lamented that Qatar has become an over-financed society and many locals are over-extended on credit cards, noting she had directed her company's collection department to start evaluating customers' outstanding debts. She cautioned that Qatar is still a tribal society and most companies lend based on name, not on an objective, data-based assessment of an applicant's credit-worthiness. Al Thani sees the development of a trustworthy credit-reporting system as an essential near-term development for Qatar's financial well-being.

¶4. (C) Al Thani underscored that she expects to see "enormous societal pressure" as the problem of over-extended citizens affects family life and increases demands on government and the Amir. She continued that Qatar's "welfare syndrome" has led a generation to believe its members can live carelessly and be bailed out by relatives or a paternalistic government. She also faulted the Central Bank for not cracking down on local banks, which she said are offering irresponsible loans to Qataris, including personal credit lines worth many times their annual salaries. (Note: see reftel from March 2008 for an in-depth examination of growing personal credit/debt problems).

¶5. (C) Former Qatari Ambassador to the UK and the chairman of a prominent local construction firm, Sherida Al-Ka'abi, told P/E Chief November 4 that he, like many Qataris, had seen the market value of his stock portfolio plummet. The losses in al-Ka'abi's case, and that of most of his friends, are only on paper. As long-term investors, they are generally unfazed by the current market currents. Another major Qatari sector for investors, real estate, had taken a hit - but in a good way. Prices in this sector were stable, rather than growing, and a pause in market growth is good for Qatar in Al-Ka'abi's view. It reduces the likelihood of a real estate bubble and will bring more realism into the investment decision-making process. He emphasized that Qatar's stable real estate prices in the current global climate are welcome news, since around the globe such prices are falling.

¶6. (C) According to Al-Ka'abi, the real danger is the mounting debts of Qataris. He said the interest rates on loans they had undertaken were up 1-2 percent on an annual basis since the global financing problems began. From the perspective of his own business, Al-Ka'abi noted that subcontractors on construction projects were approaching him with increasing frequency for help lessening the burden of their bank debts. His standard response is that bank obligations are obligations between the subcontractor and the bank and that he can't pay off his subcontractors' debts. Many Qataris are leveraged beyond their ability to pay, and this is the real economic risk he sees for Qatar.

Doha Securities Market Swings Psychological,
Financial Transparency a Continuing Problem

¶7. (C) General Manager of the Doha Securities Market (DSM) Saif Al-Mansoori told Econoff October 23 that financial analysts over-emphasize the importance of the DSM to Qatar's economy. With only 43 listed companies, and a relatively small overall capitalization, the DSM is not central or even necessarily a bellwether of Qatar's economic health. Al-Mansoori continued that the actual "free float" of the DSM is only five to ten percent, and a few wealthy individuals can make the market swing dramatically by changing their positions. He sees the local effect of DSM movements as primarily psychological.

¶8. (C) In a candid aside, Al-Mansoori noted that there is little transparency (either publicly or within the GOQ and key financial institutions) on important financial actions being undertaken by the government. He believed that the "big three" players on financial matters, especially decisions related to the Qatar Investment Authority (QIA), are Prime Minister/Foreign Minister and QIA CEO Sheikh Hamad Bin Jassim Al Thani, Finance and Economy Minister Yousef Hussain Kamal, and QIA Executive Board Member Dr. Hussein Al-Abdulla. As an example, he cited the planned NYSE Euronext tie-up with the DSM. Al-Mansoori charged that the QIA, which is the DSM's owner, is managing the deal directly and discreetly - "just like they did with (recent deals with) the London Stock Exchange and Singapore" - and the DSM is only involved in providing a liaison staffer to provide information to the QIA. He believes that the final arrangement will ultimately be similar to what has been publicly announced, i.e., NYSE Euronext will ultimately take a 25 percent ownership of the market and assist in management and information technology.

¶9. (C) Referring to the QIA's publicly announced plan to buy up to 20 percent equity stakes in local banks, Al-Mansoori said Sheikh Hamad had met with bank heads but "nothing is clear until now." He assessed that the QIA was looking at the deal not so much as a bank rescue or fall-back, but as an investment, and it held options to buy bank shares at October 13 prices (i.e., after there was a significant drop in share prices) so it could make a profit.

¶10. (C) Qatar Financial Center (QFC) Regulatory Authority Managing Director for Supervision Mike Lesser told P/E Chief

and Econoff October 26 that he sees "emerging liquidity issues" in Qatar. Noting the potential property bubble in the UAE and liquidity tightness in other GCC states, Lesser said he expects to see a spread of problems to Qatar. However, he noted that Qatar is less exposed to foreign hot money in the real estate sector as there are only a few properties open to foreign investment.

¶11. (C) Similar to Al-Mansoori's assessment, Lesser noted that DSM fluctuations are normal and not very important for understanding Qatar's financial health. Likewise, he also cited transparency as a major concern in Qatar's banking sector, as CEOs act as chokepoints on information within the banks, and the boards usually don't have independent reporting from the banks' risk management sections. As a result, they often operate on incomplete information. He believed that these practices could cause trouble for banks in the future, particularly as money becomes tighter and global problems spread to Qatar. Lesser continued that the interlocking boards of directors between the government and banks (e.g., Finance and Economy Minister Kamal is also the Chairman of Qatar National Bank - the country's largest - and the Chairman of the QFC and a QIA Executive Board Member) creates a substantial conflict of interest.